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UNITED NATIONS DEVELOPMENT PROGRAMME

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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF
COUNTRIES IN ASIA AND THE PACIFIC

IPF:(1992-96) $3 150 000

(RAS/92/032)- Strengthening the Foreign Investment Environment

Date of approval by the AC:[1/]	17 June 1992
Expected duration:	Five years
Proposed executing agency:	International Finance Corporation/Foreign Investment Advisory Service
Proposed UNDP contribution:	$3 000 000
Total UNDP budget:	$3 000 000

Project background

In recent years, many Asian and Pacific countries have come to recognise the critical contribution to improved economic performance of privatisation of productive enterprises, outward-looking trade regimes, higher investment rates in productive sectors, and stable policy environments. This new strategic emphasis reflects a growing recognition of the role of private sector development in economic dynamism.

Accompanying the region's impressive record of overall growth during the 1980s has been a shift in attitude towards Foreign Direct Investment (FDI). Since the early part of the decade, there has been a renewed interest in the flow of FDI, both as a source of capital as well as a means to acquire management, and marketing skills, technology, and other key factors of production. To this end a number of countries have introduced new policies, institutions and procedures aimed at strengthening their investment environment. These efforts have been assisted by UNDP technical cooperation, increasingly channelled through IFC's Foreign Investment Advisory Services.

It is clear, while the Asia-Pacific region has been relatively successful in attracting new FDI, capital flows on the scale of the 1970s are unlikely in the future. Developing countries will have to rely increasingly, therefore, on the mobilization of limited resources through the private sector and FDI will continue to play a critical role. Developing countries in the region are intent on continuing to strengthen their respective investment environments and the challenge for UNDP will be to provide sophisticated and timely assistance in order to accelerate this process.

Several countries have had notable success in attracting FDI. However, most countries embarking on programmes of economic reform have not yet succeeded in creating an environment conducive to investment by foreign firms. This gap between objectives and policies is often

[1/] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

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the result of a lack of knowledge of the kind of policy changes needed to create the investment environment. The proposed new programme builds on the outputs of the two phases of a related regional project during the Fourth Inter-country Programme (RAS/86/080 and RAS/88/030). During the previous phases, a number of countries (including China, Indonesia and the Philippines) have introduced policy measures as a result of FIAS assistance which have contributed to significant increases in FDI flows as well as to the overall improvement in the investment environment. The programme has been formulated on the basis of extensive consultations with the governments in the region, including a high-level Roundtable on Foreign Direct Investment in Asia and the Pacific in the 1990s, held in March 1990 in Honolulu.

This project falls under the ICP V theme on Economic Management and Reform, sub-programme ER.2 - Resource Mobilization for Development, of which the objective is "to enable developing countries in the region, especially those with relatively under-developed financial markets, to institute financial sector reforms and attract FDI, leading to an enhanced capacity for resource mobilization".

Description of project

The immediate objective of the project is to provide comprehensive, sustained and on-going assistance to the participating countries in their deregulation and economic liberalization process, with the emphasis on attracting FDI flows and channelling such flows to the priority sectors of the economy. The advisory assistance will focus on the strengthening of the overall policy/regulatory framework to attract FDI, formulation of investment promotion strategies, taking into account the investment opportunities and policy framework, and support to the institutional capacity building. The programme will take full advantage of the unique diversity of development experience within the region to support mutually beneficial initiatives both within and across subregions.

The project will provide assistance to groups of countries with similar needs: economies in transition; small island economies; South Asian reforming economies; and middle income economies. This approach is a reflection of the objective of UNDP to "take full advantage of the unique diversity of development experience within the region to support mutual beneficial initiatives both within and across subregions". The focus of assistance in the economies in transition and the small island economies will be on the development of basic policies needed to attract FDI. Institutional capacity-building will be critical in South Asia while in the middle income economies the emphasis will be on specific policy concerns, e.g., backward linkages, and the adjustment of existing policy frameworks.

Inputs

UNDP will provide the services of a project co-ordinator, policy specialists, institutional/promotion experts, and other international consultants; training of government officials; and to the extent possible, expertise among individuals and institutions within the region to enhance inter-country exchange.

Financial data

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Personnel	2 442 000
Training	540 000
Miscellaneous	18 000
Total	3 000 000

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